

COUNTY OF SAN BERNARDINO
CALIFORNIA
AUDIT REPORT
SOLID WASTE MANAGEMENT DIVISION
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
December 3, 2008

**County of San Bernardino
Solid Waste Management Division**

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LARRY WALKER
Auditor/Controller-Recorder
County Clerk

ELIZABETH A. STARBUCK, CGFM
Assistant Auditor/Controller-Recorder
Assistant County Clerk

Independent Auditor's Report

December 3, 2008

Peter H. Wulfman, Division Manager
Solid Waste Management Division
222 W. Hospitality Lane, 2nd Floor
San Bernardino, CA 92415-0017

**SUBJECT: AUDIT OF SOLID WASTE MANAGEMENT DIVISION FOR THE FISCAL
YEAR ENDED JUNE 30, 2008**

Auditor's Report

We have audited the accompanying financial statements of the Solid Waste Management Division Enterprise Fund of the County of San Bernardino, California, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Solid Waste Management Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements present only the Solid Waste Management Division Enterprise Fund and do not purport to, and do not, present fairly the financial position of the County of San Bernardino, California, as of June 30, 2008, and the changes in financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Solid Waste Management Division Enterprise Fund of the County of San Bernardino, California, as of June 30, 2008, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Division has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: _____
Howard M. Ochi, CPA
Chief Deputy Auditor

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COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS

Current assets:

Unrestricted assets:

| | |
|------------------------------------|-------------------|
| Cash and cash equivalents (Note 2) | \$ 50,068,011 |
| Receivables: | |
| Accounts receivable | 6,987,652 |
| Land use fees (Note 4) | 1,085,080 |
| Interest | 1,686,422 |
| Due from other funds | 14,171 |
| Other | 332,665 |
| Due from other governments | 3,873,999 |
| Prepaid items (Note 5) | 7,743,219 |
| Total unrestricted assets | <u>71,791,219</u> |

Restricted assets:

| | |
|---------------------------------------|--------------------|
| Cash and cash equivalents (Note 2) | 114,582,097 |
| Customer deposits (Note 2) | 843,750 |
| Deferred charges, net of amortization | 507,306 |
| Total restricted assets | <u>115,933,153</u> |
| Total current assets | <u>187,724,372</u> |

Noncurrent assets:

Capital assets:

| | |
|---|---------------------|
| Land | 17,771,510 |
| Construction in progress | 24,774,708 |
| Structures and structures/land improvements | 134,446,211 |
| Equipment and vehicles | 1,790,519 |
| Less accumulated depreciation | <u>(98,487,728)</u> |
| Total capital assets, net (Note 3) | <u>80,295,220</u> |
| Total noncurrent assets | <u>80,295,220</u> |

| | |
|--------------|-----------------------|
| Total assets | <u>\$ 268,019,592</u> |
|--------------|-----------------------|

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
STATEMENT OF NET ASSETS
JUNE 30, 2008**

LIABILITIES

Current liabilities:

| | |
|--|-------------------|
| Accounts payable | \$ 8,678,265 |
| Salaries and benefits payable | 501,288 |
| Retentions payable | 2,711,025 |
| Due to other funds | 728,434 |
| Due to trust | 734,895 |
| Customer deposits | 843,750 |
| Certificates of participation (Notes 6 & 14) | 6,430,000 |
| Interest payable | 146,341 |
| Due to other governments | 1,882,149 |
| Closure costs payable (Note 7) | 6,800,468 |
| Postclosure costs payable (Note 7) | 1,413,682 |
| Total current liabilities | <u>30,870,297</u> |

Noncurrent liabilities:

| | |
|--|--------------------|
| Employee compensated absences | 679,957 |
| Retentions payable | 463,781 |
| Certificates of participation (Notes 6 & 14) | 64,688,650 |
| Closure costs payable (Note 7) | 23,561,480 |
| Postclosure costs payable (Note 7) | 68,812,390 |
| Total noncurrent liabilities | <u>158,206,258</u> |
| Total liabilities | <u>189,076,555</u> |

NET ASSETS

| | |
|---|----------------------|
| Invested in capital assets, net of related debt | 9,176,570 |
| Restricted | 59,311,968 |
| Unrestricted | 10,454,499 |
| Total net assets (Note 8) | <u>\$ 78,943,037</u> |

COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2008

| | |
|--|----------------------|
| Operating revenues: | |
| Gate fees | \$ 56,371,712 |
| Landfill contract revenue | 979,788 |
| Land use fees | 7,545,108 |
| Septic waste | 97,397 |
| Other permits | 2,497,422 |
| Royalties | 406,611 |
| Total operating revenues | <u>67,898,038</u> |
| Operating expenses: | |
| Salaries and employee benefits | 7,435,814 |
| Professional services | 42,994,742 |
| Services and supplies: | |
| Special departmental | 327,049 |
| Insurance | 1,105,811 |
| Rents and leases | 74,461 |
| Other operating expense: | |
| Closure costs (Note 7) | 6,994,992 |
| Postclosure costs (Note 7) | 411,746 |
| Integrated waste management fee | 2,285,900 |
| Environmental and infrastructure mitigation fee | 3,034,946 |
| Other | 6,601,189 |
| Depreciation and amortization | 7,041,561 |
| Total operating expenses | <u>78,308,211</u> |
| Operating income (loss) | <u>(10,410,173)</u> |
| Nonoperating revenues (expenses): | |
| Interest and investment revenue | 8,709,015 |
| Gain on sale of fixed assets | 26,000 |
| Loss from disposal/impairment | (138,135) |
| Aide from Other Governments | 7,786,842 |
| Other revenue | 515,092 |
| Interest expense | <u>(3,464,382)</u> |
| Total nonoperating revenues (expenses) | <u>13,434,432</u> |
| Income (loss) before special items and transfers | 3,024,259 |
| Special items: | |
| Litigation settlement expense | <u>(775,000)</u> |
| Income before transfers | 2,249,259 |
| Transfers in (Note 12) | <u>3,300,000</u> |
| Change in net assets | 5,549,259 |
| Total net assets - beginning | <u>73,393,778</u> |
| Total net assets - ending | <u>\$ 78,943,037</u> |

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2008**

CASH FLOWS FROM OPERATING ACTIVITIES

| | |
|--|------------------|
| Cash received from Solid Waste Management Services | \$ 66,865,553 |
| Cash payments to suppliers of goods and services | (52,792,951) |
| Cash payments to employees for services | (7,342,551) |
| Litigation expenses paid | (3,275,000) |
| Net cash provided by operating activities | <u>3,455,051</u> |

CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|--|------------------|
| Operating transfers from General Fund | 3,300,000 |
| Other non operating revenues/expense | 8,332,268 |
| Principal paid on bonds and notes | (5,750,000) |
| Interest paid on bonds and notes | (3,930,945) |
| Net cash provided by noncapital and related financing activities | <u>1,951,323</u> |

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

| | |
|---|--------------------|
| Proceeds from sale of Equipment/Vehicles | 26,000 |
| Net proceeds from issuance of Series 2008B bonds | 6,415,000 |
| Acquisition of fixed assets | (15,160,270) |
| Net cash used by capital and related financing activities | <u>(8,719,270)</u> |

CASH FLOWS FROM INVESTING ACTIVITIES

| | |
|---|------------------|
| Interest Revenue | 8,503,031 |
| Net cash provided by investing activities | <u>8,503,031</u> |

| | |
|---|-----------------------|
| Net increase in cash and cash equivalents | 5,190,135 |
| Cash and cash equivalents - beginning | 160,303,723 |
| Cash and cash equivalents - ending | <u>\$ 165,493,858</u> |

**Reconciliation of operating income (loss) to net cash provided
(used) by operating activities:**

| | |
|---|---------------------|
| Operating income (loss) | \$ (10,410,173) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | |
| Depreciation expense | 7,041,561 |
| Change in assets and liabilities: | |
| Receivables, net | (1,232,068) |
| Prepaid items | (318,890) |
| Customer Deposits | 199,583 |
| Accounts and other payables | 5,280,905 |
| Estimated liabilities for closure/postclosure care costs | 6,169,133 |
| Litigation expenses paid | (3,275,000) |
| Total adjustments | <u>13,865,224</u> |
| Net cash provided by operating activities | <u>\$ 3,455,051</u> |

NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES

The Solid Waste Management Division refunded \$67,975,000 of Series 2003B bonds by issuing Series 2008B bonds. The net proceeds from that transaction are shown above.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The County of San Bernardino ("County") was established by an act of the State Legislature on April 26, 1853 and, is a legal subdivision of the State of California charged with governmental powers. The Department of Public Works, Solid Waste Management Division (Solid Waste) operates as an Enterprise Fund of the County. Solid Waste was created by the San Bernardino County Board of Supervisors to account for refuse disposal services provided to the public at six active landfill sites, five community collection centers and eight transfer stations. The waste disposal program is financed by funds derived from gate fees at the San Bernardino Valley and Desert Landfill sites and from land use fees charges to unincorporated property owners in both the mountain and desert areas. Solid Waste is a component unit of the County of San Bernardino for financial reporting purposes. Accordingly, its financial statements are incorporated into the County's Comprehensive Annual Financial Report as a major fund.

The Inland Empire Public Facilities Corporation (IEPFC) is a nonprofit public benefit corporation, formed on May 30, 1986, to serve the County by financing, refinancing, acquiring, constructing, improving, leasing and selling buildings, building improvements, equipment, land, land improvements, and any other real or personal property for the benefit of residents of the County. The Corporation issued Certificates of Participation dated May 1, 2003 in the amount of \$93,875,000 (the "2003 B Solid Waste Financing Certificates") which were subsequently refunded (See note 6). Beginning with fiscal year ended June 30, 2003, Solid Waste's financial statements incorporated the portion of the financial statements of the Corporation that is related to Solid Waste.

Basis of Presentation and Accounting

Basis of accounting refers to the point when revenues and expenses are recognized in the accounts and reported in the financial statements.

The accrual basis of accounting is used to account for Solid Waste's activities. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when incurred.

Solid Waste's financial statements are presented using the economic resources measurement focus. This means that all assets and all liabilities (whether current or non-current) associated with the activity are included on the statement of net assets.

Enterprise funds are used to account for business-type activities, which are financed mainly by fees and charges to users of the services provided by the funds' operations. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with an enterprise fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is Solid Waste's policy to use restricted resources first, then unrestricted resources as they are needed.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Amounts paid to acquire capital assets are capitalized as assets in the enterprise fund financial statements, rather than reported as expenditure. Proceeds of long-term debt are recorded as a liability in the enterprise fund financial statements, rather than other financing source and amounts paid to reduce long-term indebtedness of the enterprise fund are reported as reduction of the related liability, rather than as expenditure.

Accounting Standards

GASB Statement No. 20

Solid Waste has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, not to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989.

Cash and Cash Equivalents

For purposes of the statement of cash flows, Solid Waste considers all pooled investments and other highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Deferred Charges

Deferred charges consist of the refunded revenue bond and newly issued certificates of participation unamortized issuance costs, which are being amortized over the shorter life of the previous refunding or the current refunding. The issuance costs will be fully amortized in FY 2017.

Deferred Loss on Refunding

The deferred losses represents the excess of the amount placed in escrow (reacquisition price) over the carrying amount of the refunded bonds and is amortized as a component of interest expense. The deferred loss on refunding will be fully amortized in FY 2017.

Capital Assets

Capital assets (including infrastructure) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Contributed fixed assets are valued at their estimated fair market value at the date of the contribution. Solid Waste defines capital assets as assets with an initial, individual cost of more than \$5,000, and an estimated useful life in excess of one year. Capital assets used in operations, except for heavy equipment, are depreciated over their estimated useful lives using the straight-line method. Heavy equipment is depreciated by productive hours of use. Capital assets used exclusively for landfills are depreciated based on landfill usage so that by the time a landfill is 100% full, the assets will be fully depreciated.

Depreciation is charged as an expense against operations, and accumulated depreciation is reported on the statement of net assets. The estimated useful lives for each fixed asset class are as follows:

| | |
|-----------------------------|------------------|
| Infrastructure | 10 to 100 years |
| Structures and improvements | 5 to 45 years |
| Equipment and vehicles | 5 to 15 years |
| Heavy equipment | Productive hours |

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements, which significantly increase values, change capacities or extend useful lives, are capitalized. Upon sale or retirement of fixed assets, the cost and related accumulated depreciation are removed from the respective accounts, and any resulting gain or loss is included in the results of operations.

Claims and Judgments

These events and obligations are recorded on the accrual basis, when the event occurs and the obligation arises.

Employee Compensated Absences

Accumulated vacation, holiday benefits, sick pay, and compensatory time are recorded as an expense and liability as the benefits are earned. The compensated absence liabilities are recorded as a non-current liability. In the event of retirement or termination, an employee is paid 100% of accumulated vacation pay, and those with ten or more years of continuous services are paid 30% to 50% of their accumulated sick leave. The Department is not obligated to pay for any unused sick leave if an employee terminates or retires with less than ten years of continuous service.

Long Term Obligations and Costs

Long-term obligations are reported at face value, net of applicable premiums and discounts. Bond premiums, discounts and issuance costs are deferred and amortized over the life of the bonds.

Use of Estimates

The presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Net Assets

Net assets comprise the various net earnings from operating and non-operating revenues, expenses, and contribution of capital. Net assets are classified in the following three components:

- i) Invested in capital assets, net of related debt* – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding principal balance of any leases, bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- ii) Restricted* – This component of net assets consists of assets whose use is subject to constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

iii) Unrestricted – This component of net assets consists of net assets that are not restricted for any particular project or purpose. These net assets can be designated internally as reserves, and are controlled, modified, and removed by management.

Accrued Closure and Postclosure Care Costs

Accrued closure and postclosure care costs are recorded in accordance with GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs" (GASB 18). GASB 18 requires Solid Waste to provide for closure and postclosure care costs over the life of the operating landfills as the permitted airspace of the landfills is consumed. The entire closure and postclosure care cost is recognized as an expense by the time the landfills are completely filled.

2. CASH AND INVESTMENTS

Unrestricted Cash

Cash and cash equivalents include the cash balance of monies deposited with the County Treasurer, which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on the pooled investments is deposited to Solid Waste's account based upon Solid Waste's average daily deposit balance during the allocation period. Unrestricted cash and cash equivalents at the fair value as of June 30, 2008 was \$50,068,011.

Restricted Cash

Solid Waste recorded \$114,582,096 as restricted cash and cash equivalents and includes the following:

| | |
|--|-----------------------|
| Site Closure, Maintenance and Corrective Actions | \$ 107,912,424 |
| Site Clean-up | 641,755 |
| Environmental Mitigation | 85,808 |
| Sales Tax Deposits | 7,333 |
| Cash Held at IEPFC | 5,934,777 |
| Total Restricted Cash and Cash Equivalents | <u>\$ 114,582,097</u> |

Customer Deposits

Solid Waste records customer deposits as assets and records a corresponding liability to demonstrate the fiduciary relationship with the customer. Customer deposits at June 30, 2008 total \$843,750.

Cash and Investments

Cash and investments include the cash balances of substantially all funds which are pooled (the "pool") and invested by the County Treasurer for the purpose of increasing interest earnings through investment activities. The pool is not registered as an investment company with the Securities and Exchange Commission (SEC) nor is it a SEC Rule 2a7 – like pool. The pool does not issue a separate report. Included also are cash and investments held by certain joint powers authorities and cash held by various trustee financial institutions in accordance with the California Government Code.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

2. CASH AND INVESTMENTS (Continued)

State law now requires that all operating monies of the County, school districts, and board-governed special districts be held by the County Treasurer. The net asset value associated with legally mandated participants in the asset pool was \$4.12 billion at June 30, 2008.

As of June 30, 2008, the fair value of the County Pool was \$4.44 billion. Approximately 8% of the County pool is attributable to the County General Fund, with the remainder of the balance comprised of other County funds, school districts and special districts. Additionally, as of June 30, 2008, \$20.9 million of the amounts deposited in the County pool was attributable to depositors who are not required to, but choose to, invest in the County pool. These include independent special districts, State Trial Court, and other governmental agencies. The deposits held for both involuntary and voluntary entities are reported in the Investment Trust Fund.

The fair value of the pool is determined monthly, and depends on, among other factors, the maturities and types of investments and general market conditions. The fair value of each participant's position including both voluntary and involuntary participants is the same as the value of the pool share. The method used to determine participants' equity withdrawn is based on the daily average book value of the participants' percentage participation in the pool.

The County has not produced or provided any letters of credit or legal binding guarantees as supplemental support of pool values during the year ended at June 30, 2008. The pool provides monthly reporting to both the Board of Supervisors and the County Treasury Oversight Committee who also review and approve investment policy.

The County does not pool its external participants' investments separately from the County pool. The average rate of return on investments during fiscal year 2008 was 4.53%.

A summary of the investments held by the County Treasurer is as follows:

| Investment Type | Cost | Fair Value | Interest Rate Range (%) | Maturity Range | Average Maturity |
|--|---------------------|---------------------|--------------------------------|-----------------------|-------------------------|
| U.S. Treasury Securities | \$ 14,984 | \$ 15,058 | 3.36% | 10/15/08 | 107 |
| U.S. Government Agencies | 2,496,871 | 2,501,610 | 2.49% - 5.53% | 7/9/08 - 4/18/11 | 533 |
| Negotiable Certificates of Deposit | 781,725 | 780,075 | 2.38% - 3.02% | 7/1/08 - 2/27/09 | 66 |
| Commercial Paper | 525,246 | 528,556 | 2.36% - 2.91% | 7/1/08 - 11/28/08 | 37 |
| Corporate Notes | 197,502 | 194,780 | 2.72% - 5.69% | 8/15/08 - 1/4/09 | 373 |
| Money Market Mutual Funds | 215,000 | 215,000 | 2.53% | 7/1/08 | 1 |
| Repurchase Agreements | 100,000 | 100,000 | 2.57% | 7/1/08 | 1 |
| Total Treasurer's Pooled Investments | \$ 4,331,328 | \$ 4,335,079 | | | |
| Investments Controlled by Fiscal Agents: | | | | | |
| Money Market Funds | 19,403 | 19,403 | | | |
| Mutual Funds | 17,187 | 17,187 | | | |
| Guaranteed Investment Contracts | 35,918 | 35,918 | | | |
| U.S. Treasury Securities | 82,612 | 82,612 | | | |
| U.S. Agency Discount Notes | 6,581 | 6,581 | | | |
| Total Investments Controlled by Fiscal Agents | \$ 161,701 | \$ 161,701 | | | |
| Total Investments | \$ 4,493,029 | \$ 4,496,780 | | | |
| Cash in Banks: | | | | | |
| Non-Interest Bearing Deposits | | \$ 35,807 | | | |
| Total Cash and Investments | | \$ 4,532,587 | | | |

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

2. CASH AND INVESTMENTS (Continued)

| <u>Investment Type</u> | <u>S&P Rating</u> | <u>Moody's Rating</u> | <u>Fitch Rating</u> | <u>Maximum Allowed % of Portfolio</u> | <u>Individual Issuer Limitations</u> | <u>% of Pool 06/30/08</u> |
|--------------------------------------|---------------------------|---------------------------|-------------------------|---|--|-----------------------------------|
| U.S. Treasury Securities | AAA | Aaa | AAA | 100% | None | 0.30% |
| U.S. Government Agencies | AAA | Aaa | AAA | 75% | None | 57.70% |
| Negotiable Certificates of Deposit | A1+ | P1 | F1+ | 30% | \$100MM | 18.00% |
| Commercial Paper | A1+ | P1 | F1+ | 40% | 10\$ | 12.20% |
| Corporate Notes | AA | Aa1 | AA+ | 10% | \$50MM | 4.50% |
| Money Market Mutual Funds | AAA | Aaa | AAA | 15% | 10% | 5.00% |
| Repurchase Agreements | A1 | P1 | F1+ | 40% | None | 2.30% |
| Total Treasurer's Pooled Investments | | | | | | |

Investment authorized by debt agreement

Investment of debt proceeds held by bond trustees are governed by provisions of the trust agreements, created in connection with the issuance of debt rather than the general provisions of the California Government Code. Certificates of Participation and Revenue Bond indentures specify the types of securities in which proceeds may be invested as well as any related insurance, collateral, or minimum credit rating requirements. Although requirements may vary between debt issues, money market funds are all required to be investment grade. Guaranteed investment contracts are required to be acceptable to the municipal bond insurer. The fair value of investments is based on the valuation provided by trustee banks.

Investment credit risk

Investment credit risk exists when there is a possibility the issuer or other counterparty to an investment may be unable to fulfill its obligations. GASB Statement No. 40 requires the disclosure of credit quality ratings for investments in debt securities as well as investments in external investment pools, money market funds, and other pooled investments of fixed income securities.

California Law and San Bernardino County Treasury Pool Investment Policy (where more restrictive) place limitations on the purchase of investments in the County Pool. Purchases of commercial paper and negotiable certificates of deposit are restricted to the top two ratings issued by a minimum of two of three nationally recognized statistical rating organizations (NRSRO's). For an issuer of short-term debt, the rating must be no less than A-1 (S&P), P-1 (Moody's), or F-1 (Fitch), while an issuer of long-term corporate debt must have a minimum letter rating of "AA". Federal Agency notes and bonds, municipal notes and bonds, and money market mutual funds must have a minimum letter rating of "AAA". Limits are also placed on the maximum percentage investment by sector and by individual issuer. As of June 30, 2008, all investments held by the County pool were within policy limits.

Concentration of credit risk

An increased risk of loss occurs as more investments are acquired from one issuer (i.e. lack of diversification). This results in a concentration of credit risk.

GASB Statement No. 40 requires disclosure of investments by amount and issuer that represent five percent or more of total investments held.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

2. CASH AND INVESTMENTS (Continued)

This requirement excludes investments issued or explicitly guaranteed by the United States Government, investments in mutual funds, external investment pools, and other pooled investments. As of June 30, 2008, the following issuers represented more than five percent of the County pool balance (amounts in thousands):

| <u>Issuer</u> | <u>Fair Value</u> | <u>% of Portfolio</u> |
|---------------|-------------------|-----------------------|
| FNMA | \$ 764,170 | 17.63% |
| FHLB | \$ 714,683 | 16.49% |
| FHLMC | \$ 576,214 | 13.28% |
| FFCB | \$ 446,543 | 10.30% |

Interest rate risk

Interest rate risk exists when there is a possibility that changes in interest rates could adversely affect an investment's fair value. Generally, the longer the maturity of an investment, the greater the interest rate risk associated with that investment.

GASB Statement No. 40 requires that interest rate risk be disclosed using a minimum of one of five approved methods which are: segmented time distribution, specific identification, weighted average maturity, duration, and simulated model.

The County manages its exposure to interest rate risk by carefully matching cash flows and maturing positions to meet expenditures, limiting 40% of the County Pool to maturities of one year or less, and by maintaining an overall effective duration of 1.5 years or less. Duration is a measure of a fixed income's cash flow using present values, weighted for cash flows as a percentage of the investments full price. Effective duration makes assumptions regarding the most likely timing and amounts of variable cash flows arising from such investments as callable bonds.

California Law and where more restrictive, the San Bernardino County Pool Investment Policy, place limitations on the maximum maturity of investments to be purchased by sector (see schedule, amounts in thousands). As of June 30, 2008, all investments held by the County Pool were within policy limits. A summary of investments for maturity range, maturity limits, maturity average and effective duration is as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Maturity Range (Days)</u> | <u>Maturity Limits</u> | <u>Average Maturity</u> | <u>Effective Duration</u> |
|------------------------------------|---------------------|------------------------------|------------------------|-------------------------|---------------------------|
| U.S. Treasury Securities | \$ 15,058 | 107 | 5 Years | 66 | 0.29 |
| U.S. Government Agencies | 2,501,610 | 9 - 1,022 | 5 Years | 37 | 1.28 |
| Negotiable Certificates of Deposit | 780,075 | 1 - 242 | 365 days | 373 | 0.18 |
| Commercial Paper | 528,556 | 1 - 151 | 270 days | 533 | 0.1 |
| Corporate Notes | 194,780 | 46 - 492 | 18 months | 1 | 0.97 |
| Money Market Mutual Funds | 215,000 | 1 | Daily Liq. | 1 | 0.003 |
| Repurchase Agreements | 100,000 | 1 | 180 days | 107 | 0.003 |
| Total Securities | <u>\$ 4,335,079</u> | | | <u>311</u> | |

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

2. CASH AND INVESTMENTS (Continued)

Custodial credit risk

Custodial Credit Risk for Deposits exists when, in the event of a depository financial institution failure, a government may be unable to recover deposits, or recover collateral securities that are in the possession of an outside party. GASB Statement No. 40 requires the disclosure of deposits into a financial institution that are not covered by FDIC depository insurance and are uncollateralized.

California Law requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure County deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2008, the carrying amount of the County's deposits was of \$35.8 million and the corresponding bank balance was \$96.5 million. The difference of \$60.7 million was primarily due to outstanding warrants, wires and deposits in transit. Of the bank balance, \$200,000 was insured by the FDIC depository insurance and \$96.3 million was uncollateralized and not insured by FDIC depository insurance. Custodial Credit Risk for Investments exists when, in the event of a failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. In order to limit Custodial Credit Risk for Investments, San Bernardino County Pool Investment Policy requires that all investments and investment collateral be transacted on a delivery versus payment basis with a third-party custodian and registered in the County's name. All counterparties to repurchase agreements must sign a TBMA Master Repurchase Agreement and/or Tri-Party Repurchase Agreement before engaging in repurchase agreement transactions.

A separate financial statement is not issued for the external investment pool. The following represents a condensed statement of net assets and changes in net assets for the Treasurer's investment pool as of June 30, 2008 (amounts in thousands):

| <u>Statement of Net Assets</u> | |
|--|---------------------|
| Equity of internal pool participants | \$ 1,717,967 |
| Equity of external pool participants: | |
| Voluntary | 209,520 |
| Involuntary | 2,407,592 |
| Total Net Assets held for pool participants | <u>\$ 4,335,079</u> |
| <u>Statement of Changes in Net Assets</u> | |
| Net Assets at July 1, 2007 | \$ 3,964,496 |
| Net change in investments by pool participants | 370,583 |
| Net Assets at June 30, 2008 | <u>\$ 4,335,079</u> |

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

| | <u>Balance 6/30/07</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 6/30/08</u> |
|---|----------------------------|---------------------|---------------------|----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land | \$ 17,678,738 | \$ 92,772 | \$ — | \$ 17,771,510 |
| Construction in progress | 10,241,128 | 14,811,458 | (277,878) | 24,774,708 |
| Total assets not being depreciated | <u>27,919,866</u> | <u>14,904,230</u> | <u>(277,878)</u> | <u>42,546,218</u> |
| Capital assets, being depreciated: | | | | |
| Improvements to land | 125,267,063 | 243,443 | (368,499) | 125,142,007 |
| Structures and improvements | 9,296,268 | 8,553 | (617) | 9,304,204 |
| Vehicles | 198,269 | 122,342 | — | 320,611 |
| Equipment | 504,972 | 50,273 | (67,714) | 487,531 |
| Heavy equipment | <u>1,173,165</u> | <u>—</u> | <u>(190,788)</u> | <u>982,377</u> |
| Total assets being depreciated | <u>136,439,737</u> | <u>424,611</u> | <u>(627,618)</u> | <u>136,236,730</u> |
| Total capital assets | <u>164,359,603</u> | <u>15,328,841</u> | <u>(905,496)</u> | <u>178,782,948</u> |
| Less: accumulated depreciation for: | | | | |
| Improvements to land | (86,296,646) | (6,310,300) | 331,545 | (92,275,401) |
| Structures and improvements | (4,623,548) | (266,343) | 617 | (4,889,274) |
| Vehicles | (54,182) | (40,454) | — | (94,636) |
| Equipment | (321,051) | (40,849) | 67,714 | (294,186) |
| Heavy equipment | <u>(1,121,159)</u> | <u>(3,858)</u> | <u>190,786</u> | <u>(934,231)</u> |
| Total accumulated depreciation | <u>(92,416,586)</u> | <u>(6,661,804)</u> | <u>590,662</u> | <u>(98,487,728)</u> |
| Total capital assets, being depreciated, net | <u>44,023,151</u> | <u>(6,237,193)</u> | <u>(36,956)</u> | <u>37,749,002</u> |
| Total capital assets, net | <u>\$ 71,943,017</u> | <u>\$ 8,667,037</u> | <u>\$ (314,834)</u> | <u>\$ 80,295,220</u> |

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

3. CAPITAL ASSETS (Continued)

At June 30, 2008 construction in progress represents the following projects:

| Project Title | Budget | YTD Expenses | Projected Fiscal Year of Completion |
|--|---------------------|-------------------------|--|
| Mid-Valley Perchlorate/VOC Treatment System | \$10,223,984 | \$7,927,945 | 2008/2009 |
| Mid-Valley Perchlorate Original Plan | 4,250,518 | 3,365,156 | 2008/2009 |
| Mid-Valley Groundwater Monitoring Wells | 388,110 | 380,392 | 2008/2009 |
| Mid-Valley Expansion Unit 3 Phase 6 Liner | 146,277 | 106,242 | 2008/2009 |
| San Timoteo Unit 2 Phase 3 Liner | 7,506,331 | 5,942,196 | 2008/2009 |
| San Timoteo LFG Extraction System | 1,057,464 | 381,842 | 2008/2009 |
| Victorville Phase 1B State 1 Composite Liner | 4,079,049 | 3,834,305 | 2008/2009 |
| Victorville Scalehouse | 108,680 | 33,551 | 2008/2009 |
| Landers 3 rd Lined Septic Pond | 310,448 | 90,896 | 2008/2009 |
| Victorville Entrance and Access Roads | 72,996 | 37,186 | 2008/2009 |
| Barstow Unit 2 Expansion Phase 1 | 825,883 | 761,075 | 2008/2009 |
| Barstow Septage Pond #3 | 25,720 | 15,893 | 2008/2009 |
| Yucaipa Gas Extraction Treatment System | 1,430,777 | 1,366,796 | 2008/2009 |
| Milliken Landfill Perimeter Landscaping | 22,832 | 4,406 | 2008/2009 |
| Heaps Peak Settlement Repair | 26,000 | 21,066 | 2008/2009 |
| Colton Scale Area Liner | 249,968 | 229,395 | 2008/2009 |
| Colton LFG Extraction System | 1,120,536 | 276,366 | 2008/2009 |
| Total | \$31,845,573 | \$ 24,774,708 | |

4. LAND USE FEES

Land use fees are an assessment applied to improved parcels in the desert and mountain areas that are charged in lieu of a disposal fee at the landfill gates. The total amount for Land Use Fees Receivable recorded by Solid Waste at June 30, 2008 includes the uncollected special assessment fees billed for fiscal years 2006/07 and 2007/08. The \$1,085,080 balance outstanding as of June 30, 2008 includes: (1) an uncollected amount of \$598,955 and (2) \$486,125 that has been collected but not apportioned to Solid Waste.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

5. PREPAID ITEMS

Effective August 6, 1998, Solid Waste entered into a 40 year Development Agreement with the City of Rialto. An initial payment of \$14 million was made as a prepayment of tonnage charge. The prepayment was paid in two installments; \$1.5 million was paid on July 27, 1998 and \$12.5 million was paid on April 27, 2000. The prepayment is being amortized according to the Development Agreement guidelines and is adjusted for inflation. The prepayment balance for the City of Rialto agreement is \$5,348,627 as of June 30, 2008. A prepayment was recorded in the amount of \$2,394,592 for amounts paid to Burrtec Waste Industries, Inc., as required in Burrtec's contract with Solid Waste. The prepayment will be amortized reducing monthly payments to Burrtec in FY09.

6. CERTIFICATES OF PARTICIPATION

Changes to the Certificates of Participation balance includes the following:

| Balance June 30, 2007 | Additions | Deletions | Balance June 30, 2008 |
|--------------------------|-------------|-------------|--------------------------|
| \$71,808,415 | \$5,060,235 | \$5,750,000 | \$71,118,650 |

Proceeds from the Certificates of Participation dated April 16, 2008 in the amounts of \$74,390,000 (Series B Certificates) were used to refund the outstanding \$67,975,000 (Series B Certificates). Debt service principal requirements of the 2008 B Certificates of Participation to maturity using an interest rate of 2.50% at June 30, 2008 are as follows:

| Year ending June 30: | 2008 B Certificates of Participation | |
|----------------------|--------------------------------------|--------------------|
| | Principal | Interest |
| 2009 | \$6,430,000 | \$1,647,664 |
| 2010 | 6,405,000 | 1,643,151 |
| 2011 | 6,915,000 | 1,474,213 |
| 2012 | 7,470,000 | 1,295,478 |
| 2013 | 8,045,000 | 1,095,020 |
| 2014-2017 | 39,125,000 | 2,081,366 |
| Total | <u>\$74,390,000</u> | <u>\$9,236,892</u> |

Using a variable "Weekly Rate Mode," interest is evaluated weekly and paid monthly. The rate at June 30, 2008 was 2.50%

In order to provide a source of repayment and security for the certificates of participation, the County has leased certain properties to the Inland Empire Public Facilities Corporation (IEPFC), which, in turn, has leased these properties back to the County for the period that the certificates of participation are outstanding.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

6. CERTIFICATES OF PARTICIPATION (*Continued*)

The 2008B certificates of participation payable are stated at par, net of the unamortized loss on bond defeasance resulting from the 2003B and 1999A defeasance, as follows:

| | <u>2008 Series B</u> |
|---|-----------------------------|
| Principal outstanding at June 30, 2008 | \$ 74,390,000 |
| Loss on defeasance, net of accumulated amortization | (3,271,350) |
| Less current payable | <u>(6,430,000)</u> |
| Long-term portion of debt at June 30, 2008 | <u><u>\$ 64,688,650</u></u> |

7. CLOSURE AND POSTCLOSURE CARE COST

State Financial Assurance Mechanism regulations require landfill operators to set aside funds, or provide alternative funding mechanisms, to fund the closure and postclosure maintenance of landfills. The funding must be completed prior to the final date of closure. These regulations apply only to those landfills operating prior to 1989. The closure and postclosure care costs of other landfills not subject to these State regulations is funded separately in the Site Closure and Maintenance Fund.

Closure and postclosure care costs include, but are not limited to, such items as final cover, groundwater monitoring, well installations and landfill gas monitoring systems.

The twenty (20) landfills listed below (with their capacity used and estimated remaining lives) are those currently subject to State and federal regulations:

| Landfill | Capacity Used | Years Remaining | Landfill | Capacity Used | Years Remaining |
|-----------------|--------------------------|----------------------------|------------------|--------------------------|----------------------------|
| Apple Valley | 100% | Inactive | Milliken | 100% | Inactive |
| Baker | 100% | Inactive | Morongo Valley | 100% | Inactive |
| Barstow | 4% | 100 | Needles | 100% | Inactive |
| Big Bear | 100% | Inactive | Newberry Springs | 100% | Inactive |
| Colton | 92% | 4 | Phelan | 100% | Inactive |
| Hesperia | 100% | Inactive | San Timoteo | 37% | 41 |
| Landers | 56% | 5 | Trona-Argus | 100% | Inactive |
| Lenwood-Hinkley | 100% | Inactive | Twentynine Palms | 100% | Inactive |
| Lucerne Valley | 100% | Inactive | Victorville | 14% | 39 |
| Mid-Valley | 30% | 25 | Yermo | 100% | Inactive |

The landfill closure and postclosure care cost estimate of \$187,164,746 and \$131,555,467, respectively, are based upon the most recently submitted Closure/Postclosure Maintenance Plan documents filed with the State and Federal permitting agencies. If, at some future date, these closure cost estimates are adjusted (due to changes in inflation, technology, regulations, etc.), the County is required to make corresponding changes in the amount of funds deposited for closure.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

7. CLOSURE AND POSTCLOSURE CARE COST (Continued)

Each year a portion of each landfill's estimated closure and postclosure cost is recognized as an expense and liability based upon the amount of capacity used during the year. Barstow received approval for a sliver fill on July 27, 2007, which increased its available capacity by 500,000 cubic yards. The available capacity for the Barstow landfill was also increased by an additional 72,024,053 cubic yards in FY07/08 to more accurately account for the ultimate footprint of the landfill site. The other five active landfill sites' available capacities were adjusted in FY07/08 to reflect the ultimate footprint of each landfill site, which resulted in the following adjustments: the available capacity for the Colton landfill was increased by 4,580,395 cubic yards; the available capacity for the Landers landfill was increased by 547,386 cubic yards; the available capacity for the Mid-Valley landfill was increased by 17,128,456 cubic yards; the available capacity for the Victorville landfill was increased by 8,205,520 cubic yards; and the available capacity for the San Timoteo landfill was increased by 2,400,000 cubic yards. As of June 30, 2008 the cumulative liability recorded by the County based upon individual landfill capacity usage was \$189,117,585. The remaining \$129,602,628 of estimated closure and postclosure costs will be recorded and funded as landfill capacity is used. Closure and postclosure related expenditures of \$83,016,204 and \$5,513,361 have been incurred through June 30, 2008, which reduced the landfill closure and postclosure liabilities to \$30,361,948 and \$70,226,072.

The noncurrent closure and postclosure activity for the year ended June 30, 2008 includes the following:

| | Beginning Balance | Increase (Decrease) | Ending Balance |
|--------------------------------------|----------------------|------------------------|----------------------|
| Noncurrent Closure costs payable | \$ 23,190,879 | \$ 7,171,069 | \$ 30,361,948 |
| Noncurrent Postclosure costs payable | <u>71,228,008</u> | <u>(1,001,936)</u> | <u>70,226,072</u> |
| TOTAL | <u>\$ 94,418,887</u> | <u>\$ 6,169,133</u> | <u>\$100,588,020</u> |

In accordance with a Pledge of Revenue Mechanism adopted by the County of San Bernardino Board of Supervisors on August 30, 1994, Solid Waste has pledged tipping fees and interest revenue to fund the post-closure maintenance costs as needed. Total tipping fees received in the current year were \$56,371,712 and postclosure expenditures were \$1,413,682. Each landfill site's maintenance costs are budgeted annually following the Closure and Post-Closure Maintenance Plan as approved by the California Integrated Waste Management Board (CIWMB). The term for each landfill site funding requirements is 30 years starting with the date of closure as certified by the State.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

8. NET ASSETS

Net assets at June 30, 2008 total \$78,943,037. Net assets represent the difference between assets and liabilities and are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

| | |
|--|-----------------------------|
| Net assets invested in capital assets, net of related debt: | |
| Property, plant and equipment in service | \$178,782,948 |
| Less: Accumulated depreciation | (98,487,728) |
| Less: Outstanding principal of related debt | <u>(71,118,650)</u> |
| Total net assets invested in capital assets, net of related debt | 9,176,570 |
| Restricted net assets | 59,311,968 |
| Unrestricted net assets | <u>10,454,499</u> |
| Total net assets | <u>\$ 78,943,037</u> |

Restricted Net Assets

This category presents restrictions imposed by creditors and state regulatory agencies. The Solid Waste Management Division has restricted net assets of \$59,311,968 consisting of \$53,377,191 restricted to provide financial assurance for landfill closure costs as required by the California Integrated Waste Management Board and \$5,934,777 restricted as a debt service reserve for the San Bernardino County 2008B Certificates of Participation.

Unrestricted Net Assets

This category represents net assets of the Solid Waste Management Division, not restricted for any project or other purpose.

9. RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (the "AQMD"), were later included, along with the County of San Bernardino (the "County"), and are collectively referred to as the "Participating Members". The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

9. RETIREMENT PLAN (Continued)

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2008.

Funding Policy (amounts reported in the thousands)

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.97% - 12.84% for general members and 11.14% - 15.09% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follow: County General 12.03%, County Safety 24.84%. All employers combined are required to contribute 14.46% of the current year covered payroll. For 2008, the County's annual pension cost of \$203,712 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2008, were as follows:

| | |
|---|--------------------------|
| Annual Required Contribution (County fiscal year basis) | \$ 203,712 |
| Interest On Pension Assets | (32,917) |
| Adjustment To The Annual Required Contribution | <u>47,803</u> |
| Annual Pension Cost | 218,598 |
| Annual Contributions Made | <u>203,712</u> |
| Increase/(Decrease) in Pension Assets | (14,886) |
| Pension Asset, Beginning of Year | <u>828,602</u> |
| Pension Asset, End of Year | <u><u>\$ 813,716</u></u> |

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

| Year Ended June 30, | Annual Contributions Made | | Percentage Contributed |
|------------------------|---------------------------|---------|---------------------------|
| | SBCERA | County | |
| 2006 | 197,343 | 166,614 | 100% |
| 2007 | 239,857 | 194,130 | 100% |
| 2008 | 241,721 | 203,712 | 100% |

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

9. RETIREMENT PLAN (Continued)

The following schedule shows the County's actuarial value of its assets compared to its accrued liability, for the current year and five preceding years:

| Actuarial Valuation Date | Actuarial Value of Assets* (a) | Actuarial Accrued Liability (AAL)** (b) | Unfunded/ (Overfunded) AAL (UAAL) (b)-(a) | Funded Ratio (a) / (b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b)-(a)]/(c) |
|-----------------------------|-----------------------------------|--|--|---------------------------|------------------------|--|
| 6/30/2003 | \$ 3,815,573 | \$ 4,368,411 | \$ 552,838 | 87.34% | 933,898 | 59.20% |
| 6/30/2004 | 4,418,152 | 4,719,865 | 301,713 | 93.61% | 943,545 | 31.98% |
| 6/30/2005 | 4,750,229 | 5,215,719 | 465,490 | 91.08% | 968,674 | 48.05% |
| 6/30/2006 | 5,175,767 | 5,624,646 | 448,879 | 92.02% | 1,028,731 | 43.63% |
| 6/30/2007 | 5,797,400 | 6,227,013 | 429,613 | 93.10% | 1,102,151 | 38.98% |
| 6/30/2008 | 6,341,531 | 6,773,629 | 432,098 | 93.62% | 1,219,562 | 35.43% |

* Includes assets for Survivor Benefits, Burial Allowance, General Retiree Subsidy, and Excess Earnings Reserves

** Includes liabilities held for Survivor Benefits, Burial Allowance, General Retiree Subsidy, and Excess Earnings reserves

The County, along with the AQMD, issued Pension Refunding Bonds (the "Bonds") in November 1995 with an aggregate amount of \$420,527. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266. In April 2008, the County refunded a portion of the Bonds. The current amount outstanding at June 30, 2008 is \$435,707.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070, \$149,825, and \$125,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the SBCERA. In April 2008, the County refunded a portion of the Series 2004 A and all of the 2004 Series B. The current amount outstanding at June 30, 2008 is \$301,595.

In April 2008, the County of San Bernardino issued its \$160,900 in Pension Obligation Refunding Bonds (POB), Series 2008 (the "Series 2008 Bonds"). The current amount outstanding at June 30, 2008 is \$160,900.

10. INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$35 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority ("EIA") Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

**COUNTY OF SAN BERNARDINO
SOLID WASTE MANAGEMENT DIVISION
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

10. INSURANCE (Continued)

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the County's Risk Management Fund (an Internal Service Fund) except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The liabilities included in the Risk Management Fund are based upon the results of actuarial studies, and include amounts for claims incurred but not reported and allocated loss adjustment expense. It is the County's practice to obtain actuarial studies on an annual basis.

11. CORRECTIVE ACTION

State Financial Assurance Mechanism regulations require landfill operators to set aside funds, or provide alternative funding mechanisms for initiating and completing corrective action for all known or reasonably foreseeable releases from the disposal facility in at least the amount of the current corrective action cost estimate. In January 2008, the Solid Waste Management Division received a cost estimate for the Phelan Landfill which required such corrective action. The total current cost estimate of \$334,658 is set aside as cash restricted for this purpose until an alternative funding mechanism is approved by the State agency.

12. TRANSFER-IN

San Bernardino County transferred \$3,300,000 from its contingency fund to Solid Waste. This transfer was for the County's expected share of the 2007 Fire Disaster Debris Removal Program.

13. COMMITMENTS AND CONTINGENCIES-POLLUTION MITIGATION EFFORTS

BACKGROUND

Sanitary Landfills can pose a pollution threat due to the materials that were disposed of in the landfill (the typical source of this type of threat is from hydrocarbons) and the bi-products that are created by the decomposition of the organics in the waste, such as methane gas. Regulations require landfill owners to provide systems that contain potential contaminants (e.g., landfill liners, closure caps, and landfill gas extraction systems) and systems that monitor the effectiveness of these containment systems (e.g., landfill gas migration probes, and ground water monitoring probes). Prior to 1989 these systems were not required and thus municipal solid waste disposal sites that closed prior to this date, typically lack these mitigation measures. When a landfill is found to be the source of ground, water, or air contaminants, the owner is required by law to perform pollution monitoring and mitigation efforts to correct the problem, as necessary.

PERCHLORATE CONTAMINATION

On September 26, 2002, the Regional Water Quality Control Board (RWQCB) issued a directive to Solid Waste to submit a Work Plan and conduct additional perchlorate investigations in the vicinity of the Mid-Valley Sanitary Landfill (MVSL). The directive required Solid Waste to submit the Work Plan by October 26, 2002. Solid Waste requested and was granted an extension to the submittal deadline from October 26, 2002 to November 15, 2002.

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13. COMMITMENTS AND CONTINGENCIES-POLLUTION MITIGATION EFFORTS (*Continued*)

On November 15, 2002, Solid Waste prepared and submitted to the RWQCB a work plan for additional soil and groundwater investigation of perchlorate in the vicinity of the MVSL. Subsequently, the RWQCB adopted and issued Cleanup and Abatement Order (CAO) No. R8-2003-0013 to the County. The RWQCB approved Solid Waste's work plan on January 30, 2003.

In accordance with Item 2 of CAO No. R8-2003-0013, the RWQCB directed the County to submit a work plan for the installation of at least five (5) additional monitoring wells at the leading edge of the plume and along the easterly boundary of the plume. In addition, the RWQCB also directed the County to submit a work plan to develop a conceptual remedial action plan. Solid Waste submitted the work plans to the RWQCB on February 17, 2004 and February 26, 2004. Per their letter dated March 25, 2004, the RWQCB approved the work plans as submitted.

The drilling program within the RWQCB-approved work plan consists of the installation of up to thirty (30) temporary and six (6) permanent groundwater monitoring wells; the collection of groundwater samples; the setting of pumps within three installed wells to be used for hydraulic aquifer testing; the containment of well development water; and securing all necessary permits. Installation of the monitoring wells commenced on May 1, 2004 and was completed in August 2004.

With respect to the drilling program work plan, the contractor provides hydrogeologic services to oversee the installation and logging of thirty (30) temporary and six (6) permanent groundwater monitoring wells, sample and analyze the temporary and permanent wells, oversee and document three (3) aquifer pump tests, conduct twelve months monitoring of the new groundwater monitoring wells, and prepare a supplemental investigation report.

On September 17, 2004, the RWQCB issued Order No. R-2004-0072 amending Cleanup and Abatement Order No. R8-2003-0013 and requiring the County to take action necessary to provide replacement water to the City of Rialto by April 1, 2005, to replace the water currently extracted from Rialto Well No. 3, which is threatened by the Perchlorate plume apparently emanating from the expansion property located at the County's Mid-Valley Sanitary Landfill. Solid Waste has an agreement with the San Bernardino Water Company to provide the necessary water when needed.

On September 14, 2004, prior to and in anticipation of the September 17, 2004, RWQCB meeting, the County held a hearing to inform the public about the alternatives available to provide replacement water to Rialto and to accept public comment on same. The preferred alternative identified at that time was a groundwater treatment system that would intercept the Perchlorate plume, treat the water, and make the treated water available to Rialto for beneficial use.

On December 21, 2004, the Board of Supervisors approved the installation of a groundwater treatment system for Perchlorate and Volatile Organic Compounds (VOCs).

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13. COMMITMENTS AND CONTINGENCIES-POLLUTION MITIGATION EFFORTS (*Continued*)

In fiscal year 2005/2006, the extraction wells have been installed and are operational, and the treatment system has been installed and remains in test mode. When the treatment system is fully tested and approved, it will be turned over to the City of Rialto to operate and maintain with the SWMD covering most of the on-going cost. As the treatment plant is operated, an analysis will be performed to determine the best locations for additional extraction wells to enhance the extraction of perchlorate contaminated groundwater.

FINANCIAL IMPACTS OF MITIGATION EFFORTS

Through June 2006, the SWMD has Perchlorate-related expenditures of \$9,198,220. Fiscal year 2005/2006 revenues include \$490,815 from a \$0.69/ton Perchlorate Surcharge approved by the Board of Supervisors in October 2005 with collection starting on February 1, 2006, and an insurance rebate from the SWMD insurance carrier for \$100,000.

In FY 2006/2007, the SWMD spent a total of \$2,256,055 relating to the perchlorate issue. Of the total amount, \$233,826 was issued to the City of Rialto for the operation and maintenance of the treatment system at Rialto Well #3; \$780,540 was spent on continuing the work plan and groundwater treatment system near the Mid Valley Landfill; \$14,824 was spent for RWQCB oversight; and, \$1,226,865 was spent for litigation. Revenues from the Perchlorate Surcharge generated \$1,506,331. Through FY 2006/07, the SWMD has spent \$11,252,307 and has received \$2,031,146 in revenues and insurance rebates.

In FY 2007/2008, the SWMD spent a total of \$6,702,227 on perchlorate related issues, including \$775,000 as a good faith effort towards a Perchlorate lawsuit settlement (referred to as 'independent settlement' below) with the City of Rialto and the City of Colton. Of the total spent on perchlorate related issues, \$3,740,232 was spent on continuing the work plan and groundwater treatment system near the Mid Valley Landfill and \$2,186,995 was spent for litigation. FY 2007/2008 Perchlorate Surcharge revenues amounted to \$1,120,651.

RELATED LITIGATIONS

Leachate Contamination of ground water: On November 10, 1998, the County approved a settlement agreement with the San Gabriel Valley Water Company (SGVWC). This agreement settles the claim that Leachate from the Mid-Valley Landfill has negatively impacted some of SGVWC's wells. This agreement requires the County to pay for the annual operation and maintenance cost of the treatment system for as long as necessary. As security for each annual payment, the County must annually post a letter of credit for 125% of the year's operations and maintenance costs, based upon an estimated budget submitted by the water company. When the agreement was approved, the then current estimate for the annual operations and maintenance costs was \$500,000 per year. The agreement does not state a specified number of years over which these annual costs may be incurred; therefore, a reasonable estimate of the contingent liability cannot be determined.

Perchlorate Contamination of ground water: The following lawsuits have at their core the operative events of perchlorate water contamination alleged to arise from the Mid-Valley Sanitary Landfill operated by the SWMD or collateral matters related to that contamination. One of the collateral lawsuits involves a fee challenge relating to the County's recovery of the costs of clean up of the perchlorate contamination while another collateral lawsuit is filed by former owners of property currently owned by the County and involves a breach of contract for an alleged failure to provide a defense and indemnification to the federal perchlorate actions.

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13. COMMITMENTS AND CONTINGENCIES-POLLUTION MITIGATION EFFORTS (*Continued*)

City of Rialto and City of Colton lawsuits involving Perchlorate at the Mid-Valley Landfill: The County has entered into a settlement of \$5 Million, of which the County's portion of \$775,000 was paid in FY2007/2008, for the federal and state perchlorate lawsuits filed by the City of Rialto and the City of Colton ("independent settlement"). However, the effectiveness of the independent settlement is subject to certain conditions, including that the County reach a settlement regarding perchlorate with the Regional Water Quality Control Board, Santa Ana Region and that the federal court make a determination that the proposed independent settlement is in good faith. While these conditions are believed to be achievable, in light of the possibility of a settlement of the perchlorate lawsuits involving all parties ("global settlement"), the County and Cities have temporarily deferred further action on their independent settlement.

The federal perchlorate lawsuits by the City of Rialto and the City of Colton have been dismissed without prejudice; meaning that the lawsuits can be refiled. These dismissals are part of the global settlement effort. The former parties to the federal lawsuits are participating in mediation to reach a global settlement. If the mediation for global settlement is not successful, the County and Cities will proceed with satisfying the conditions necessary to make their independent settlement effective. If a global settlement is going to come about, the County and its insurers will likely need to contribute \$5 million (this is distinct from the \$5 Million being paid to the Cities relative to the County's existing settlement, otherwise known as independent settlement).

Breach of contract lawsuit for indemnity: The County purchased land adjacent to the Mid-Valley Sanitary Landfill for expansion purposes. A term of the sale was the County's agreement to indemnify the former owners against claims arising from the presence of hazardous materials discovered on the property after the close of escrow. When Rialto filed its federal lawsuit, it named the former landowners as defendants. The County agreed to defend and indemnify the former owners pursuant to the terms of the sales agreement. However, this offer was rejected as the former owners claimed that a conflict of interest existed relative to the attorney chosen by the County to provide the defense. The former landowners filed suit seeking recovery from the County of their attorneys' fees and costs in defending themselves in the federal perchlorate action.

This state lawsuit remains. However, the independent settlement reached between the County and the Cities (and, it is expected, any global settlement) will affect the indemnity claim, including possibly eliminating it. The attorney fee claim would still remain, regardless of whether the independent settlement becomes effective or a global settlement is effective (and possibly even if a global settlement is reached). At this time, an estimate of the potential cannot be made.

Waste Disposal Agreement (WDA) Cities lawsuit regarding the perchlorate surcharge: At the October 25, 2005 SWMD Financial Status Report presentation to the Board, the Board adopted the perchlorate surcharge of a flat \$0.69/ton to recover the 30-year projected costs for clean up. The SWMD began collecting the new fee on February 1, 2006. Eleven WDA cities filed a state lawsuit against the County alleging that the County had no authority, under the WDA contracts, to impose the perchlorate surcharge. The cities received a favorable ruling in the state court, and the matter is currently on appeal. If the appeal is unsuccessful, SWMD's loss will be approximately \$600,000 per year (866,000 tons @ \$0.69/ton). Currently the County and the WDA cities are engaged in discussions to settle this matter without further litigation.

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13. COMMITMENTS AND CONTINGENCIES-POLLUTION MITIGATION EFFORTS (*Continued*)

San Gabriel Valley Water Company lawsuit involving Perchlorate at the Mid-Valley Landfill: On July 1, 2008, San Gabriel Valley Water Company filed a claim alleging that perchlorate from the County's Mid Valley Landfill, including the expansion portion of the property where aggregate mining is taking place, has impacted its wells in the Rialto-Colton Basin. It is too early to determine the potential liability of the County.

Volatile Organic Compounds (VOC) ground water contamination: The following lawsuit had at its core the alleged VOC ground water contamination from the closed Cajon Disposal Site operated by the county from 1963 through 1980.

United States Environmental Protection Agency (US EPA) lawsuit: The Federal Court approved a Consent Decree settling the liability of the County for the alleged contribution of pollutants by the closed Cajon Disposal Site to the Newmark and Muscoy groundwater contamination plumes. In return for an \$11 million payment (the County paid \$2.5 million in November 2007 from its own funds, the balance was provided by its insurers), the County receives the full extent of the US EPA's protection from suits by other potential polluters as well as receiving protection from the Federal Government seeking reimbursement for the approximate \$160 million it paid for the cleanup of the contamination. The approved Consent Decree, which follows the standard form of an EPA Consent Decree, contains various standard "re-openers" that allow the EPA to seek additional funds from the County in certain limited instances.

14. REFUNDED DEBT

The proceeds from the issuance of \$74,390,000 of the 2008 Series B Certificates of Participation were used as follows:

| | | |
|----------|---|----------------------|
| Sources: | | |
| | Principal amount of Certificates | <u>\$ 74,390,000</u> |
| Uses: | | |
| | Issuance costs | \$ 231,354 |
| | Debt Service Reserve Fund | 5,587,750 |
| | Escrow Fund for Additional Issuance Costs | 354,313 |
| | Contingency Fund | 731 |
| | Interest | 240,852 |
| | Funds available for refunding | <u>67,975,000</u> |
| | | <u>\$ 74,390,000</u> |

The funds available for refunding were used to pay outstanding principal and accrued interest of \$68,225,178 on the outstanding "Series B" Certificates issued in 2003.

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14. REFUNDED DEBT (Continued)

The defeasance resulted in a loss of \$1,358,901, which consists of the following:

| | |
|---|---------------------|
| Amount placed in escrow for refunding | \$ 67,975,000 |
| Less: Outstanding principal of Prior Certificates of Participation | (67,975,000) |
| Add: Accrued Interest Paid on Prior Certificates of Participation | 250,178 |
| Outstanding Prior Certificates Deferred Issuance costs | <u>1,108,723</u> |
| Deferred Amount on Refunding | <u>\$ 1,358,901</u> |

The Corporation will amortize the loss over the period of maturity of the 2008 Series B Certificates.

As a result of the advance refunding, the Corporation has potentially increased its debt requirements by \$1,173,318. This results in an economic gain (difference between the present value of debt service payments in the old and new debt) of \$628,453.